

HB

171

,5

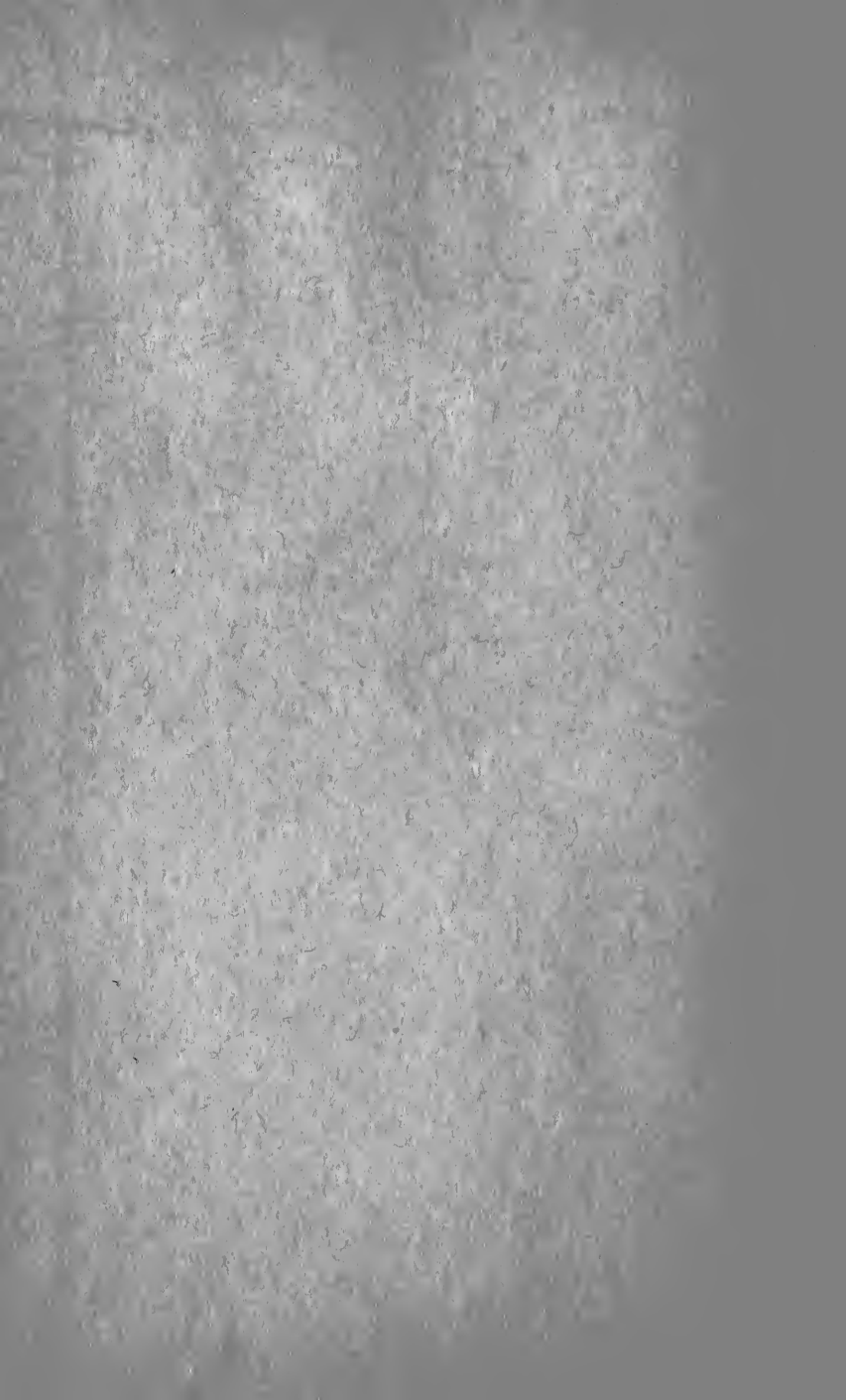
.H15

LIBRARY OF CONGRESS



00020505862





ECONOMICS I.

A SUMMARY

OF

HADLEY'S ECONOMICS.



ECONOMICS I.

Library of Congress
JUN 27 1898
2nd Cir. L. 117 H. 0. 10

A SUMMARY OF
Arthur T. W. Wheeler
HADLEY'S ECONOMICS.

WITH AN APPENDIX CONTAINING SUGGESTIVE
TOPICS FOR REVIEW.

A CONVENIENT HAND-BOOK FOR PREPAR-
ING THE WEEKLY WRITTEN
QUESTIONS AND ALL
EXAMINATIONS.

COPYRIGHT BY EDW. W. WHEELER. *P. 1*

Cambridge, Mass.
E. W. WHEELER, PRINTER,
1898.

0
3
3
3
3
3
3

HB 17
.5
H15

9306

This Summary is intended to replace the text book in preparing for the examinations, and will also be found extremely useful during the year in answering the weekly written questions. The questions at the end have been prepared especially as a guide for review.



TWO COPIES RECEIVED.

35935

2nd COPY,
1898

992

32

SYNOPSIS OF HADLEY'S ECONOMICS.

CHAPTER I.

Political economy is the art which helps the statesman to promote public wealth. The laws of this art are the basis of the science of economics. Sect. 1.

Public wealth is the utility and benefit both morally and physically of the various properties of the nation. Property of the nation includes both private property, government property, and all the advantages of the country, such as good climate, etc. Sect. 2.

A property right is a title to a part of the public wealth. Property rights may be created or destroyed without increasing or diminishing public wealth. Sect. 3.

The wealth of a community depends on the utilization of the means of public enjoyment. Public wealth is a flow, not a fund. It is to be measured as income, not as capital. Sect. 4.

The capital of an individual or a community is the amount of wealth in existence at that time. The income is the amount of wealth obtained during a certain period. Capital and income may be converted, each into the other. Sect. 5.

Wealth is the means of enjoyment. The use of this is the public income. The total amount of public income at any moment is the public capital. Ordinarily the term public capital is applied to that capital which is employed for production. Sect. 6.

Private wealth is the right to a part of public wealth. The amount which accrues to this is private income. The total amount of these rights, at any moment, is private capital. Ordinarily the term private capital is applied to that part of those rights which is applied to production. Sect. 7.

The mercantile system of political economy taught that the nation should strive to make money in the same manner as the individual. The nation should get rich by selling more than it bought.

The excess of exports over imports was looked on as the index of national prosperity. Sec. 9.

The physiocrats said that national power lay not in the supply of gold and silver, but in the supply of food. Sec. 10.

They laid too much stress on the quantity of food as a measure of public wealth and too little on its utilization. Sec. 11.

Adam Smith showed that private wealth was a powerful agency for furthering public wealth. Sec. 11.

Formerly trade was a struggle between buyer and seller. Today it is regarded as a mutual service. Sec. 12.

This is the first result of Adam Smith's perception. Sec. 12.

A second result was the change in the attitude of economists toward state interference. The restrictions to prevent extortion also prevented mutual service. The doctrine of "*laissez faire*" (go as you please) was introduced. Sec. 13.

A third result was to make people look on political economy as a science rather than an art. Economics is the science of the laws of business; it is not the art of conducting business. Sec. 14.

In economics, law has two meanings. A natural law is an observed sequence of cause and effect. A positive law is a command, both moral and jural, relating to wealth. Sec. 15.

"*Laissez faire*" led to individualism and freedom. This led to the view that private property is good, because it was seen that freedom in other things had good results. Sec. 17.

The socialist *distrusts* that the loss from individual freedom outweighs the gain. He believes the evils of individual freedom outweigh the gain. Sec. 18.

The individualist glorifies the pursuits of wealth since it is the means of mutual service. Sec. 19.

Individualism calculates the large and remote results. Socialism looks to the details. Too much state action tends to create new evils. The good of state action is often tangible. But the evils are much more indirect and bad because by their subtlety they are not seen until they have become very bad indeed. Sec. 20.

Laws and institutions are the result of natural selection. Sec. 21.

Education and imitation perpetuate in children the useful qualities of their fathers. Sec. 22.

The human struggle for existence is between groups rather than individuals. It is a struggle more for domination than annihilation. This is true also of some of the higher animals; ants, for instance,

have institutions and usages, which are like those of semi-civilized man. Sec. 23.

In man physical characteristics are strikingly alike. In animals they are different. Sec. 24.

In the community we have a natural selection of ethical types rather than physical ones. This is a danger to the strength of the community. Sec. 25.

Economics and ethics are closely connected. The preservation of the ethical type is not good because it is not economically beneficial. The present system of society is good because it prevents the group type from becoming rigid, and its laws and customs so inflexible as to render it unable to adapt itself to changed conditions. Sec. 26.

Economics is studied historically and deductively. Economics must be studied with ethics, historically. Sec. 28.

CHAPTER II.

As civilization progressed man learned to accumulate his income into capital. Sec. 29.

The accumulation of capital permitted the institution of slavery. Sec. 30.

The condition of serfdom gave to the people who lived under it a positive advance in present enjoyment and in possibility of progress. Sec. 31.

Slavery, by its nature, offers little incentive to increased efficiency. Sec. 32.

The two facts that capital originated in robbery and labor in slavery do not prove that the capitalist is a thief or the laborer an inferior. Sec. 33.

The progress of slavery raised the question of the legal ownership of animals and slaves. Sec. 34.

The slaves enabled their owners to reach a higher state of moral development. They also helped to make society more secure. Therefore they were public wealth. Sec. 35.

By tending to preserve peace and to increasing the accumulation of property, slavery led to the humanizing influences of family life. Sec. 36.

This led to the gradual necessity for peace and order, in order to secure the protection of accumulated wealth. Sec. 37.

From this, followed the recognition of rights among slaves. This culminated in their emancipation. Sec. 38.

The emancipation often increased public wealth by making more efficient workmen of the slaves. Sec. 39.

The change from slave to free labor took place first in manufactures, then in agriculture. The metayer system provided that a certain share of the produce be surrendered to the proprietor of the land. This was the first step toward free labor in agriculture. Sec. 40.

The free country is richest and most powerful in long war. Emancipation, therefore, became a political necessity. Sec. 41.

The greater efficiency of the labor of the North helped overcome the South. Sec. 42.

Emancipation often has effects of doubtful good. Serfdom is often a good thing. Sec. 43.

In Russia the slave has become, by emancipation, the slave of the money lender. Sec. 44.

Emancipation makes the slave depend on himself. This localizes poverty. The deserving poor are few. There are less famines now, because every man looks out for himself. Sec. 45.

Poverty is diminishing. Industrial inequality has come to be a grievance. Much poverty is due to causes for which the poor are to blame. Sec. 46.

Malthus said that poverty was the necessary accident of the struggle of existence. Society could not provide work for all. If this is so, there is no need to attempt to eradicate poverty. If poverty is preventable, the claims of our civilization for favorable judgment can hardly stand for a moment. Sec. 47.

Malthus said that population was bound to increase faster than the efficiency of production. Some, therefore, will lack food. Sec. 48.

A low death rate is an index of social prosperity. Sec. 49.

If the productive efficiency increases as fast as population, agricultural products will not be subject to the law of diminishing returns. Sec. 50.

The children of those who have married young die for lack of proper care and support. Sec. 51.

Generally the improvements in production of food will not keep pace with the possible excess of the birth rate over the death rate. Sec. 52.

The pressure of population on subsistence serves as a stimulus to improvements in the arts. If the state provided for every child (1)

the stimulus to be self-supporting would be taken away, (2) the natural selection of the stronger families and individuals would cease and the race would find a dead level, (3) the capital of the community would be impaired by increased consumption and diminished production. In order to restrict population each individual must be responsible. Poverty, then, would exist through neglect of this responsibility. Sec. 54.

The opponents of Malthus say (1) Population never presses on subsistence. There is food enough if it were only properly distributed. (2) If there were a more equal distribution of food population would not be likely to press on subsistence, because increased comfort lowers the birth rate. Sec. 55.

These critics overlook the fact that the surplus of food is the result of family responsibility. Private property and family life stimulates production in all but this lowest. Sec. 56.

Increased comfort does not lower the birth rate necessarily. Both are the result of prudence. Sec. 57.

Fear of loss of social standing lowers the birth rate more than that of starvation. Social ambition in itself does not prevent an increase in population, but the need of subsistence is felt by all. Those who possess it are stamped as bearing a higher intellectual morality. Prudence is the prime cause of all restraint. Sec. 58.

The waste of more power in the exercise of prudence is a real evil. This may lead to physical and moral evils. Sec. 59.

This danger is slight. The modern family and the law of capital have been checks on population. A change in economic institutions changes the average character. Sec. 60.

Natural selection and functional adaptation alone cannot regulate population, individual responsibility can. Sec. 61.

We must look out for the poor and unfortunate though the process of natural selection be hampered. The ethical loss would far outweigh the gain. Sec. 62.

Criminals should not reproduce. If the pauper wont work he is a criminal. Whether he can work, will work or can't find it demands different treatment. Sec. 63.

Indiscriminate charity fosters pauperism. Sec. 64.

Wilful paupers should be separated from the rest. Sec. 66.

The work test determines the kind of pauper. The attempt to make the work useful is good, but it must not interfere with its character as a test. Sec. 67.

These efforts take three forms. 1. Public works. 2. Labor colonies. 3. Advances or loans of money to be repaid. None have succeeded. Sec. 68.

It is asserted that public works preserve the laborer's self-respect. They cannot be constructed in the winter when this need is greatest. It diverts from other employment some who would have found work. The preservation of self respect is more apparent than real. It is a queer notion of self-respect that leads a man to accept money out of the public treasury through political chicanery. In agriculture, however, there is no particular attraction, and the danger of undue diversion from other trades, and of political chicanery is slight. Sec. 69.

Labor colonies do not reach the right people generally. They do not teach men self support. They become places of refuge for the vicious poor. No association of workmen is in a position to guarantee the utility of its future product. If the advances by the state were to be confined to agriculture the danger would be much less. England recently has lent money to the poor to buy land. The plan is good but not of sufficient standing to insure success. Sec. 70.

The German bureaus of information have been quite successful, because the police system is so efficient. It is impossible to provide food and lodging for those seeking work without great danger that such relief will be misused. Much pauperism is due to the stubbornness on the part of the individual against taking certain kinds of work. Sec. 71.

Compulsory insurance is another means of reducing pauperism. The laborers are required to contribute to the fund while they work. The saving may be out of the necessities, luxuries or savings. If this compulsory saving is out of his necessities it lessens his labor power and that of his children. If it is out of his luxuries, all well and good, but it generally does not come from this source. If it comes out of his savings it tends to make him dependent instead of self supporting, because it takes away the stimulus to save, which makes the labor self responsible. Sec. 72.

Compulsory saving does not give the moral and educational results which voluntary saving gives. Sec. 73.

There is also danger that the amount of accidents and sickness will increase. Already the number of railroad accidents in Germany has increased. This shows that the diminution of personal responsibility lessens the incentive to work. Factory insurance can be

carefully supervised. Government insurance cannot be easily guarded against fraud. Sec. 74.

Insurance tends to decrease individual responsibility. This is not good either ethically or economically. Sec. 75.

CHAPTER III.

As society advanced trade increased. As this went on prices began to be regulated by the law of demand supply instead of by custom. Sec. 76-77.

As machinery replaced hand labor the division of labor became greater. Sec. 78.

Freedom in production and trade is accompanied by increased freedom of consumption. All business which is injurious to other business is for the most part prohibited by law. Prostitution and the sale of liquor are tolerated because the doctrine of "*laissez faire*" has gained such strength. Sec. 79.

Public opinion and knowledge can enforce those laws where violations are public. Much compulsory legislation has to be supported by the state; *e. g.*, public schools. Sec. 80-81.

Custom and public opinion determine what people shall buy for the most part. Sec. 82.

Formerly wealth was reckoned in cattle, land, etc. Now it is reckoned in the ability to command a price. Price, in its broadest sense, is the quantity of one thing which is exchanged for another. Sec. 83.

Money facilitates trade. It must be homogenous and invariably acceptable. Prices are at present measured in money. Sec. 84-85.

Isolated transactions are bargaining ones. Sec. 86.

Competition is the effort of rivals to dispose of their goods. It may be suspended by a monopoly, by custom, ignorance and sentiment. Sec. 87.

The place where prices are determined by competition is a market. The essential thing in a market is that the buyer and seller know the prevailing rate. Sec. 88.

The supply of an article is the amount available at a given price. The demand is the amount that will be taken at a given price. Where demand equals the supply, there is the market price. Sec. 89-90.

A curve may be made to represent this. Where the supply curve cuts the demand curve, there is the market price. Sec. 91.

Additional increments in quantity of the article of consumption do not bring proportionate increase of enjoyment or utility. Sec. 92.

The relation of demand to supply varies with different articles. As the supply increases people are willing to pay less and less for it. With some articles no increase in the supply will increase the demand. Sec. 93.

In a state of competition, price is fixed by the self interest of the buyers. In the absence of competition prices are fixed by law or custom. In the latter case there is no variation in price possible which would mark a scarcity in the supply. Besides a price which is fixed by law or custom prevents often, by its injustice, an adaptation of the quantity of service to the needs. Sec. 97.

If the supply exceeds the demand while prices remain the same either by custom or law, the sales will be fewer than the supply. This will accumulate stock which either will have to depreciate or form such a glut on the market that it will have to be sold at a sacrifice. Receding prices warn producers that there is an increased supply. Sec. 98.

Competition tends to make the price proportional to the cost of production. This price is the normal. Commercial competition fixes the market price. Industrial competition adjusts supply and demand. This results in the approximation to the normal price. Sec. 100.

This process is prevented (1) by the absolutely fixed quantity of some articles; (2) by the monopoly of some articles; by the uncertainty of the phrase "expense of production." The "normal" generally is measured by the expense of producing additional supplies by those who go into the business at a disadvantage; (4) by-products. It is hard to estimate their cost; (5) the process of investment is so slow that new inventions may often create a new normal before the original readjustment is made. The expense and the slowness of starting a railroad is an example. Sec. 101.

The adjustment of market price to the normal is important. Sec. 102.

A price is a fact. Value is an estimate of what the price ought to be. It often means a proper or legitimate price. In this sense value means worth. A theory of price explains business. A theory of value passes judgment on its morality or advisability. Sec. 104.

There are two theories of value, the commercial or competitive, and the socialistic theory. The former bases value upon what the buyer is willing and able to offer. The socialistic theory bases value on what it has cost the seller in the way of toil and sacrifice. The competitive theory explains price as the value it would command under perfectly free competition. Sec. 105.

The socialists allege that the relative effects of free competition are unfair. The most disagreeable task ought to be the highest paid. Expense in money is very different from expense in human toil and sacrifice. Trade consists in getting goods for less than their value and selling them for more. Profits are unfair extortions. Sec. 106.

We admit that labor is not paid by its agreeability. We admit that there is an inconsistency between our doctrine of equal political rights and the facts of the industrial world. If you reward labor according to its difficulty of execution you will have no means of easily determining when the supply equals the demand. The Government would have to establish the number in each trade. This is industrially and politically a very bad method. Under the present régime able men have a chance to rise honestly. In socialism the chance would be by political influence. Sec. 107.

The socialistic theory takes away the premium for efficiency. Time which was wasted would count for as much as time well spent. Trade is not robbery. Almost all large incomes are deserved. The commercial theory is better because it puts a premium on efficiency. Sec. 108.

CHAPTER IV.

Law and moral sense look down on gambling as an evil. Sec. 109.

The man who risks one half of his income risks the loss of a large amount of comfort for an even chance of gaining a smaller amount of comfort. It is a poor business investment. It also tends to destroy the sense of moderation and self-respect. Gambling is, for the most part, an attempt to get something for nothing. Sec. 110.

Insurance is a form of gambling in so far as it is a wager as to one's lifetime. It is justifiable because it puts money, when it is needed, where it has a high utility to society and to the individual. The possibility of securing it is a source of security and industrial efficiency. Sec. 111.

All trade is more or less of a speculation. It is a question whether speculation is gambling or not. It depends on the individual cases. This is why the socialist regards trade as an evil. He admits that it does a necessary work of distribution, but they say that the profits between the buying and selling are unjust and extortionate. Sec. 113.

The speculator does a service to the community when he buys goods when cheap and sells them when dear. He lessens the burden which would fall on the community by the increased cost of goods. Sec. 114.

Anything which tends to prevent the fluctuation of goods undoes the service of distribution (putting goods where they are needed). Sec. 115.

The less accurately the comparison can be made of the relation of demand and supply in different markets, the more speculative the trader's possible profit becomes. Sec. 116.

Formerly business was more speculative for this reason. Now it is an "arbitrage" (mutually beneficial exchange). Sec. 117.

Formerly speculation existed by taking advantage of differences of prices of different places. Now it is by taking advantage of the differences in prices of different times. Sec. 118.

This kind of speculation tends to diminish the fluctuation of market prices if it is legitimately carried on. Sec. 119

The man who purchases grain for the excitement of the wager is just like the man who bets on the horse race. Speculation on "margins" is just like this. Sec. 120.

A corner is where a man or body of men get hold of all the available supply of a commodity, and compel those, who have made contracts to deliver it, to pay an exorbitant price. This hurts honest speculators, producers and consumers. The harm to business methods and morals is much though it is indirect. Sec. 120.

Legislation must limit only the illegitimate speculation. Much legislation in the past has defeated its own objects. Sects. 121-122.

The difference between legitimate and illegitimate legislation is in the intention not in the form. Public opinion, and a strict enforcement of the law, would be beneficial. A man should use his own capital; this makes him less rash. Sec. 124.

With borrowed capital a man can be as reckless as he will. Public opinion should check his career. No law will be required in that case. Sec. 125.

The employers of labor are those who are able and willing to speculate in the products of labor. The more remote the realization of the speculation the more uncertain it is, and the more speculative. Sects. 126-127.

Great undertakings could not be undertaken under the socialist's régime, because the utility in the future would not be known until it had been built. If every man was paid by the work he had done in making utilities, he would have to receive nothing for his work if his work proved useless. The uncertainty of new projects is well seen in impractical inventions. Sects. 127-128.

The inventor uses his own capital. The inventor's success is large, to compensate risk, and to attract inventors. Sec. 129.

Property is an incentive to gain control of the industrial actions of other men. Sec. 130.

This motive has three effects: (1) An increase of accumulation, which, by its investment, increases public wealth. (2) A process of natural selection which preserves those able to manage capital. (3) Increased intensity of speculation which results from the prose and greater competitors. Sec. 131.

Profits are not immoderate. They are fast becoming less in proportion to the capital invested. Sec. 132.

This system has resulted in industrial profits. The losses it has entailed are its severest indictments. Sec. 133.

If natural selection does not preserve the men who best serve themselves by serving the public, we may let socialism look after the responsibilities attached to great wealth. Sects. 134-135.

CHAPTER V.

Wages are advances of capital to the laborers. Sec. 136.

Their security is necessary to society. Law often makes them exempt from attachment in order to better protect the laborer. Sec. 137.

The risk of production should be borne by the capitalist and not by the laborer. Sec. 138.

The amount of capital consumed in production is known as the cost of production. Private cost is better known as expense. The excess of return above expense is private profit. This is measurable. Public profit is not. Private profit is justifiable because it conduces to public profit. Sec. 139.

The expectation of profit leads to investment. Capital invested for a remote return is fixed capital. This increases with the advance of society. Sects. 140-141.

The economic institutions of society should encourage investment. The most important institution is that of private property. It is justifiable because it fosters investment. Sec. 142.

Property right is better than government ownership. (1) It offers incentive to improvement. (2) It generally will yield more taxes to the government by reason of the increased value due to the improvement. Sects. 143-144.

Property right is best when the owner is the occupier. It is good when the occupier is the owner's agent. If the land owners oppress the tenants judicial rents should replace competitive ones. Sec. 145.

All land speculation is not hurtful. Sec. 146.

Grants of monopoly in manufactures as inland stimulates their development. Sec. 147.

Patents are short guarantees of monopoly which make invention, and investment therein possible. Copyrights are justifiable for the same reason. Sects. 148-149.

The public gains, attendant on the transplantation of a process, are far less than those which are attendant on those which have been wholly untried. Sec. 150.

Where grants of monopoly are impractical subsidies are granted. Sec. 151.

A practical means of encouraging investment is the modern system of interest. It is justifiable because it encourages capital to be used that would be idle or wasted. Sec. 152.

The ratio of selling price to the income is the rate of capitalization. For instance, a piece of land is worth \$2,000; its income is \$100; the rate of capitalization is 5 per cent. Sec. 153.

Saving banks and insurance companies lead people to save by the benefits which accrue. Sec. 154.

Among ignorant non-commercial people usury laws are good. Sec. 155.

In commercial communities they are a hindrance because they prevent just investments of capital often times. Sec. 156.

Usury laws are circumvented. The borrowers are hurt by the honesty of the honest, and by the high charges of the unscrupulous. The more honest lenders, by keeping out of the market, aggravate the scarcity of money loanable. Sec. 157.

Loans are justifiable by the productiveness of the thing it is to be used for, rather than by the wants of the person who borrowed it. If a loan leads to a productive thing the borrower should have every chance to attract capital to it. If the loan will not be productive the lenders should have little inducement to lend it. The creditor has to look to the investment rather than to the borrower's person. Sec. 158.

The small liability of the members of corporations protects them from unwise directors. In partnership, however, the members are justly liable. Sects. 159-160.

An over-production of machinery causes a commercial crisis. It is wrong to say that the harm comes from too great investment of capital. More often there is too little investment. Sec. 161.

There are no "absolute" or "natural" rights to land. Property right is the chief modern incentive to labor care and avoidance of the waste of capital. The rights of capital are narrower. They effect the methods of management rather than the motives on which it is founded. To modify the method is easy; to modify the motives is to remove the substruction of society. Sec. 163.

The presence of the modern organization of capital is *per se* the strongest proof of its vitality. The maintenance of the rights of the capitalists is vital to our growth. Sec. 164.

CHAPTER VI.

The investment of fixed capital has wrought more radical changes in manufactures and transportation than in agriculture. The productiveness of manufactures has increased faster than that of farms. The investment of capital in agriculture has not gone so far that its interest and maintenance constitute the main elements in the cost of food production. The theory of normal price, under these circumstances, is a hindrance. But we may still rely on competition to protect consumers, and do no injustice to the producers. Sec. 165.

The extreme economy of large production tends to make prices oscillate, by tending to create an oversupply which would lower prices. Sec. 166.

The failure to reach a staple price leads to combination. Sec. 167.

Combinations are economical both to the individual producers and to the public. This is especially true of distributive services. Sec. 168.

The "combine" system is often poor, on account of the unscrupulousness of its members. The public is best served by a one price system such as a "combine" inaugurates. Sec. 169.

Many bona fide "combines" are broken down by selfish consumers. Sec. 170.

Pools take three forms. (1) Division of the field. (2) Division of the traffic. If the state affairs is such that one course is weaker than the other a differential rate is given to the weaker concern, which shall attract trade its way sufficiently to make the divisions equal. (3) Division of the earnings. The two latter systems are very good. Both are productive of mutual trust. All three prevent cutthroat competition. Sec. 171.

In the United States pools are illegal. To obviate this the joint counting rooms take the form of clearing houses. When the majority of stock of each company is put in the hands of a common board of trustees, there is said to be a trust. The stockholders, who have given their stock to the trustees, lose their vote. They receive their earnings. Consolidation is possible, but it is taxed on the whole property in each state. The prevention of consolidation led to combination. The advantages of industrial combination are often overbalanced by the evils of commercial combination. The economy of combination is somewhat offset by the loss of stimulus which competition alone seems able to give. Sec. 173.

Boycotting of rival companies by combinations is bad. Non-restriction of charges is a shortsighted policy. Sec. 174.

A corner may force prices and make money for a short time. The real gains are, however, less than the apparent ones. Sec. 175.

If the article consumed is sold directly to consumers, the commerce will be unsuccessful, because the demand will decrease. If an intermediary has contracted to supply the article to the consumer, the corner will be more successful. It pays to sell cheap with small profits. Sec. 176.

Low prices with low profits do not invite competition. Sec. 177.

Often a monopoly is governed indirectly in its charges. A railroad must fix its rates so as to permit transportation. Sec. 178.

There are few cases when the monopoly of the sources of supply is so complete that even the possibility of indirect competition is absent. It is far more profitable to have low charges and small profits. Sec. 179.

The evils of a shortsighted policy leads to the demand that the

government should control it. But worse results would follow from this than before. Sec. 182.

There are three methods of regulating such industries. (1) Limitation of profits. (2) Fixing of rates by public authority. (3) Enforcement of farsighted methods of management. Sec. 183.

A limitation of profits would remove the incentive to get maximum profits which are gained at the same time that the public is best served—that is when the business is large and the profits small. It also prevents the investment of capital, which is the best guarantee for the protection of efficient public service. It does not foster new methods and inventions, because it takes away the possibility of special profit. Besides a legal limitation is easily got around: (1) By extravagance of management and salaries: (2) Stock watering. The evil of this is far worse than that of unlimited profit. Sects. 185-187.

The limitation of rates is much better, but it has these objections: (1) It is hard for the manufacturers to determine the cost of products. It depends so much on quantity. (2) It is much harder for the government to determine rates justly. The depreciation in the value of stock, and the fluctuation of the cost of materials interfere with a just legal fixing of rates. Sects. 187-188.

Private companies fix a rate for maximum profit. This is the point, as we have seen, of greatest advantage to the public. The government would not be able to fix the rate so well, because it is not interested like the private company. In many kinds of business the company itself don't know how to fix rates. In many cases they are very variable, as in the case of bye products. The government cannot manage affairs so well as the company, because the self-interest of the company leads it to make maximum profits. Maximum profits are accompanied by the best public service. Although the laws might be efficient, their operation is, in almost every case, unsatisfactory. Sects. 189-194.

New industries need legal regulation, because they have not had the experience which teaches them that they serve themselves best by serving the public best. If the attempts to prescribe rates is unsatisfactory the managers will lay their own shortcomings all on the government. This retards the educational process. Sects. 195-196.

Court arbitration is less useful because of the increasing complication of human affairs. Sec. 196.

Commissioners are often good, but they increasingly depend on authority. Advisory boards are also good. Sec. 197.

Publicity of rates is useful. General legal principles are better than special statutes. Sec. 198.

The directors should be made more responsible. Sects. 199-200.

CHAPTER VII.

Money is a basis of commercial obligations. It serves two purposes: (1) Cash reserve. (2) Medium of exchange. There must be a cash reserve to secure solvency. Sects. 201-202.

A basis of contracts not based on a medium of exchange is money of account. Sec. 203.

It is necessary that money be homogeneous and invariably acceptable. One kind must not be worth more than another. Sects. 204-205.

Metals are used for coinage because their value is less liable to fluctuations due to the current production in one year. They are permanent and homogeneous. Sec. 206.

The choice of metal depends largely on the cost of production. It also depends on its scarcity, *e. g.*, platinum in Russia. Sec. 207.

Coinage is the process of stamping a piece of metal certifying its weight and fineness. Coins are milled, stamped on both sides and returned, when old, to prevent the operations of the counterfeiter and sweater. The sweater rubs off some of the metal and makes a new coin look like a much worn one. Sec. 208.

The declaration of legal tender must be with the accord of the property holders, else no one will accept it. Sec. 209.

The superior execution of the coinage which seignorage makes possible, is of far more value than the slight increase in elasticity which free coinage affords. Sec. 210.

The charge which the government makes for coinage is called seignorage. This is generally charged on subsidiary coin. Subsidiary coin is not worth its face value. Usually it is not legal tender. When seignorage is abstracted from legal tender it is called debasement. Sec. 211.

Gresham's law is that a relatively small increase to the currency with debased currency, decreases the amount of good money in circulation by nearly the same amount. Sec. 212.

When the debased currency replaces the good by more than a

little its value falls; this process is called inflation. The result is depreciation. Debasement usually results in depreciation, because the motive to expand the debased currency is large. The government is tempted to coin the seignorage. Sec. 213.

Paper money is useful on account of convenience. There are three forms: (1) Coin or bullion certificates. (2) Redeemable paper. (3) Irredeemable paper. The bullion certificates are secured dollar for dollar. Redeemable paper are not founded on actual reserve, but on the assets of the treasury. There is the danger that these will, in an emergency, be converted into inconvertible paper. This is likely in an excess to be discredited. It is likely to be issued in excess. The evils are obvious in contracts. Sec. 214.

There are, besides these, bank notes. The sum total of all these comprises the currency. Bank checks are part of the currency. Sec. 215.

The value of money is measured by the quantity of other things which a unit will purchase. It varies inversely with the level of prices. A method of determining the value of prices has been found by the weighted average of prices, and by the relative amounts used in an average family. Both these are worked out for a number of years. The results are quite the same. Sects. 215-216.

The index numbers thus formed do not indicate the enjoyment gained in spending money, because: (1) They deal with products alone. They do not take into account rent, wages and services rendered. (2) They deal with wholesale prices and not retail which do not correspond. For this reason the index is distorted. (3) They are based on wholesale prices nearest the point of consumption. Cheap transportation affects these prices. All these causes tend to make the gain to the consumer, and the loss to the producer, from the observed fall, much less than a superficial view of the index would lead people to infer. Sec. 217.

The amount of money times the circulation is equal to all the business done. This is equal to the prices times the transactions. R —rapidity of circulation. M —money. P —price. T —transactions. $R \times M = P \times T$. If R is proportionate to T , M is proportionate to P . Sec. 218.

In this system, changes in the quantity of money are at once a cause and an effect of changes of general price level. There is less error in regarding the changes as effects. The amount of production

of gold is so far affected by changes in the price level, that it tends to adapt the supply to the demand, and thus mitigates changes more than it causes them. Sec. 219.

Under free coinage gold is withdrawn from the arts or currency as its value is greater in the arts or currency. Sec. 220.

Every individual must have a cash reserve. If a nation does no banking business, each individual must hold a relatively great reserve. A man must have some cash reserve. It is reduced if he has deposited his money in the bank, for his reserve is the bank's reserve. This is smaller in proportion. A nation's demand for money is the sum of cash reserves which its individual members deem necessary for their maximum profit. The higher the price level the greater will be the amount of money which has to be held as reserve. Sec. 221.

If there is a temporary deficiency of the money reserve, there will be a demand for short time loans at high interest. If this lasts long men will sell goods and securities in order to get gold. Prices will go down. Gold will go up. This attracts gold from other countries, and from the arts. Under free coinage the gold will so increase that its value will go down, with respect to commodities. Prices will go up again. The converse case of excess of money shows corresponding effects. Sec. 222.

The supply and demand of gold money are in equilibrium, when the value of coin equals the value in the arts; when the marginal utility of an ounce of gold used in the arts is exactly equal to the marginal utility of the goods which it will purchase at current prices when used as money. Sects. 223-224.

The marginal utility as gold bullion must be equal to the marginal utility of any of the various articles the money coined from such bullion would purchase. This may be represented by a diagram. If gold were used in the arts alone, the nominal price would be when the curve of the demand for gold cuts the curve of the supply of gold. If the gold is used both for money and the arts, more gold will be needed than before. Therefore, to the curve of the amount of gold which is demanded in the arts must be added the amount of gold which currency demands. This brings the price of gold up. Sec. 226.

The present scarcity of gold is adjusting itself by increasing the supply. Sec. 227.

In the case of money which is increased in amount at increased

cost, we have a double equilibrium: (1) Between the marginal utility of the bullion used in the arts, and the marginal utility of the commodities purchased by coin of corresponding weight. (2) Between the cost of production of such bullion, and the cost of the production of the articles for which a corresponding amount of coined money is exchanged. The changes in the value of gold are bound to be slow enough to allow people to readjust contracts. Sec. 228.

Money fluctuates in both quantity and value. Sec. 229.

A tabular standard has been devised to ascertain the fluctuations. Contracts would be payable in coin, but the amount would depend on the price level when the payments became due. When the index number rose the amount paid should be larger. In the reverse case it should be smaller. This has two objections: (1) It is unfair to set any fixed tables of commodities as a basis for the construction of such a table. (2) There is no authority to do this except the treasury department. In emergencies it would be difficult to trust to its impartiality. Sec. 230.

If there are two kinds of money, one of which is worth more than the other, the debtor will pay in the cheaper metal, and the creditor will want the dearer metal in the absence of a tabular standard. Sec. 231.

Bimetallism is the policy of allowing free coinage of more than one metal. This keeps both metals in convenient and alternating use. Sec. 232.

Bimetallism diminishes the chance of fluctuations in the value of money. It does not permit appreciation as does monometallism. A slowly depreciating currency is better than a slowly appreciating one. It is better for the debtor, and also tends to prevent an over supply of capital, and its consequent rash investment. These are the arguments of the bimetallist. Sects. 233-236.

Gold has not appreciated so much as the bimetallist asserts. Prices have not gone down universally. Many things have risen in price. This shows that gold has not appreciated much. Sec. 236.

Besides, as prices have fallen, interest has decreased. In times of advancing prices, the loss of the creditor was offset by an increase in the interest rate. Most of the contracts for the payment of interest were of short enough duration to enable the creditor to indemnify himself for any probable loss of his principle by increased interest charges. Although there is injustice it is less than would appear from looking at the figures of prices alone. Sec. 287.

Labor bears a very constant ratio to gold. This prevents much injustice. If the laborer earns about the same amount of real wages, there is no injustice, because he will be able, with real wages, to do as much as before. Sec. 238.

Silver has depreciated much more than gold. This would have made a system of bimetallism more fluctuating. Sec. 239.

The evil secondary results of quick inflation are not avoided by a slow continuous process of depreciation. While prices advance speculators come into the control of business by offering high rates which they cannot pay unless the depreciation is continued. Over production of machinery results. Sec. 240.

Bimetallism is impracticable. It is attempted under three conditions :

(1) If the ratio between gold and silver is the market ratio of price, a slight fluctuation would make one dear and one cheap metal, both of which would be legal.

(2) If the ratio were near the market ratio, the mints might begin to operate and make the ratio correspond to their bullion value. This might happen on account of ignorance ; no one could tell what would happen. In order to support this the nation would have to take silver enough to keep the gold in circulation. A large amount of silver would drive the gold out of circulation. No nation could keep this operation up.

(3) When the ratio is far from the market ratio, the result will tend to be monometallism. Sects. 241-242.

France had bimetallism under good conditions. It degenerated into gold and subsidiary silver coins, because of the discovery of gold in California and Australia. She could not support her silver, but simply had to make it subsidiary on account of the rise in price.

The United States went through the same series. Sec. 244.

The Bland Act (1878) secured the coinage of \$2,000,000 worth of silver per month. The government kept the seignorage. This was all right, because the country was growing and could absorb the currency. Sec. 245.

The Sherman Act (1890) provided for the purchase of four and a half millions ounces of silver a month, by an issue of treasury notes, equal in amount to the bullion purchased. This sent the price up. Two mines were opened and the prices were again lowered. The government could not buy the silver ; gold was all spent, and relief was only obtained by the repeal of the Act. This proved the inefficiency of bimetallism for the United States. Sec. 246.

There are four plans proposed to replace monometallism :

(1) A bimetallism on shifting rates. This is bad, because of its liability to mismanagement. If an attempt were made to regulate these matters by international agreement, the friction attendant on such would be great.

(2) Large coinage of silver by a number of nations, limited, however, so as to drive out the gold. This forces nations to carry much silver coin. The people might not agree to this. If they did not the nations would have to carry still more silver.

(3) Bimetallism provides a currency which consists of a certain weight of both metals combined. This is possible to abuse by the government.

(4) Free and unlimited coinage of silver at 16 to 1. Under this the currency would be exposed to the changes of silver production. Besides, this would be inconvenient in foreign exchange. Such a currency as this would not be universally acceptable, perhaps. This would raise interest. It would scale down debts. Any gain to the debtor would be offset by the difficulty of borrowing. Sects. 247-250.

An issue of legal tender notes without reserve has been contemplated. Three motives combine to cause unwise and spasmodic inflation of paper money of this kind :

(1) A fiscal motive ; to issue money to meet expenses. (2) Constant pressure of the debtor class for an increased volume of legal tender money. (3) A general popularity of such issues. Sec. 251.

Inflation may cause temporary ease, but it has its secondary effects. Sec. 252.

The reason for this superficial view is that the borrower wants money and he thinks the larger the currency the easier to get money. What he really wants is capital. No increase in the currency will increase capital. Interest will rise because lenders will fear that the government will increase the currency again. To secure themselves they charge a higher rate. Sec. 253.

Inflation of the currency causes a temporary inflation of business. Then ensues depression, the proportion of legitimate transactions diminishes under these circumstances, and gambling increases, because there is less security and more chance in business. The tendency is to raise prices faster than money. This hurts the laborers. The scaling down of debts does more harm than good to the laborers. Sec. 255.

CHAPTER VIII.

If capital is scarce the community try to use credit instead of money. Sec. 256.

This is thought to be a sign of progress. The tendency is to increase the use of cash. Sec. 257.

The pressure to use credit and little money is felt in two distinct cases. (1) In poor communities people keep too little cash reserve. This results in high credit prices, low level of prices for cash, and an uncertain commercial system. (2) In very active communities the people in their eagerness invest all their wealth to increase their wealth in the future. Sec. 258.

A system of credit is worked out by checks on the bank. The necessity for actual payments is diminished by letting the account run from month to month. Sec. 260.

The Clearing House may be used for checks on banks not in the same place. Sec. 263.

Domestic exchange is the difference in money values of checks on banks from different parts of the country. This difference may equal the cost of shipment of bullion. The bank, with regular depositors, pays the loss. Sec. 263.

In foreign exchange the cost of shipment is greater, giving a wider margin of profit and loss. The business of foreign exchange is unlike domestic exchange in that it is used as a source of income. Sec. 264.

When exchange is most favorable it is at \$4.83. When most unfavorable it is at \$4.89. It will hardly exceed these since the bullion would be transported at a higher rate. Sec. 265.

The limits of variation in foreign exchange are largely affected by the rate of discount in both countries. Sec. 266.

Bills of exchange are sold ahead of time. The buyer may reap a profit by prophesying which way exchange will run when the bill is due. It would be economical if we could stall the constant flow of gold by giving and receiving rights of money instead of sending it across. Sec. 267.

It is not necessary to receive money from the country to which we sent it. We may receive it from any where. Sec. 268.

This credit system, by which less bullion actually flows than would flow if we settled separately with each country, has two advantages.

1. It avoids the risk of actual transmission. 2. It saves the wear

on metallic money and saves the interest on the capital which would be represented by so much coin. The money which is thus saved may be used for investment which would yield a profit besides that already gained from exchange. Sec. 269.

The amount of reserves depends on the kind of business the bank does. The city bank has 25 per cent., while the country bank has only fifteen per cent. Sec. 270.

Commercial banks have many of their investments in discounted commercial paper. Sec. 271.

When parties draw accommodation paper — accepted bills on the basis of fictitious transportation — the bank refuses to do business with them. Sec. 272.

Banking does the same service that speculating does. It allows the stock of money to be better utilized and insures credit. The use of bank deposit gives elasticity to the currency. Sec. 273.

If it is easy to get accommodation at the bank, prices rise. This goes on until the liabilities become disproportionate to the reserves. When the public perceives this, accommodation is withdrawn. This causes greater distress than would have resulted had the facilities of payment by credit been less elastic. Sec. 274.

This danger is greater when credit takes the form of bank notes instead of checks. The credit of the bank notes is outstanding for a long time. The inflation is apt to be too large and the reserve too small. Sec. 275.

As prices rise, the notes are increased. This continues until there is some shock to the confidence of the people, such as may be caused by a bank failure. Sec. 276.

Bank note inflation may be stopped before a crisis comes. When inflation is weak, the movement of coin may give warning. Sec. 277.

No method of banking will avoid these evils. All banks tend to inflate at the same time. The local character of the currency may prove an actual advantage. Pride or custom may prevent people from redemption of notes. This tends to let the notes circulate freely. Sec. 278.

Centralized control of banking and note issues has worked better. But that is not eminently successful. Sec. 279.

The choice between one great bank and many small ones has been political, not economic. Sec. 280.

Sir Robert Peel's Act of 1834, to compel the volume of currency depend on coin and bullion was, for the most part, good. Sec. 281.

In Scotland and Canada the notes are convertible. Sec. 282.

The Bank of France is not governed by legislation as to the amount of its note issues. It has issued its notes wisely. Sec. 283.

In Germany one-third of the issue must be protected by coin. If the difference between the reserve and the issue exceeds \$70,000,000 an annual tax of 5 per cent. is levied on the excess. More stress is laid on supervision than on specific instructions. Sec. 279.

A United States bank was established twice, chiefly to help the government. It did not prevent the issue of notes by state banks. Both times it expired, but the issues of notes by state banks continued until the Civil War. Sec. 285.

In Massachusetts a number of banks established a common agency for the redemption of notes, to prevent irresponsible issues. In New York, a law compelled banks to hold United States bonds, state securities, or real estate mortgages to the amount of the notes issued, and to deposit them with the state treasurer as a pledge of redemption. Sec. 286.

During the war a tax of ten per cent. was levied on State Bank notes in order to place the government notes. State Banks then became national. They deposited one-third of their capital in United States bonds in the Treasury, and on this they could issue 90 per cent. of the face value of the bonds. The price of bonds later rose, so that the maintenance of the circulation was unprofitable, and a large amount was surrendered. Sec. 287.

It is urged that the financial systems of both the United States and England are based on no economic law, but on a somewhat arbitrary principle. In England, the circulation is increased by suspending Sir Robert Peel's Act of 1844. In the United States the circulation is increased by the issue of clearing house loan certificates. These certificates are allowed the members of the New York Clearing House Association in return for deposits of securities, 75 per cent. of their par value. At the Clearing House they are accepted in lieu of cash payments. This, of course, sets free so much extra cash. Sec. 288.

The bank notes should *not* equal the wants of business in ordinary times. It should not be so elastic that in times of emergency it will not take additional strain. Sec. 289.

Some think the government should take into its hands the issue of notes. They urge that it would be a profit to the treasury and a protection to the people. Sec. 290.

Much of the profit is more apparent than real. The proof is that some banks have given up the circulation of notes. If the government took it, its credit would diminish, and the rate of interest on the debt would increase. This would counter-balance all the gain Sec. 291.

The treasury is not well fitted for a banking business. It has no means of swelling or shrinking the currency. A bank may use its assets for this. The government cannot, because quick inflation will ensue. Besides, the assets of the government furnish no indication of the volume of the currency needed. Sec. 292.

The Farmers' Alliance wants the government to issue notes on the basis of products entrusted to the government; the notes to be retired as soon as the products are withdrawn, and the proportion of such notes to the value of the product deposited to be kept low enough to ensure the government against loss and stimulate the owner to sell goods as soon as possible. Such a plan would do little good or harm if it were properly carried out. If safe action on the part of the government does not make the currency larger than it is with safe action on the part of the banks, the whole reason of the scheme falls through. It involves the existence of a system of governmental machinery which, with slight changes in the law, could be made to inflate the currency under the guise of promoting credit. This would be a perpetual menace to the stability of the country. Sec. 293.

CHAPTER IX.

More than normal profits in any business attracts capitalists to it. This will increase the demand for labor and wages will rise. Sec. 295.

The rate of profit is extremely variable, due (1) to the difference of time production (2) to superior foresight. Sec. 296.

Payment for capital is interest. Payment for location is rent. Sec. 297.

Interest is not a natural return independent of skill in investment. There is a conformity between the borrower's estimate for the future and the actual experience of the past. Sec. 298.

The system of interest was approved because it increased public wealth. The rate of interest is detrimental by the skill of the investor. Sec. 299.

The rate of interest depends on the law of demand and supply of loanable funds. It is paid for the control of capital. It represents commuted profit. Sec. 300.

The rate of interest is a competitive rate of commutation. It tends to a point where the demand for capital, on the part of those who think their profit will exceed that rate, equals the supply furnished by those who think their profit will not exceed that rate. Sec. 301.

In point of fact the interest is a little below this point. The lender is willing to let his capital a little cheaper in order to lose the care of it. Sec. 302.

There are two sources of capital. One is the business men who might be borrowers instead of lenders. The other is the people who insure themselves, by lending, a steady return in the future. The amount of the first kind of capital varies. The capital from the latter source does not vary with the rate offered. It would be better to say the rate varied with the amount offered. Sec. 303.

The amounts of capital which people are willing to convert into income (interest) correspond to the amounts of income people are willing to convert into capital. Sec. 304.

The general fund of loanable capital owned by people who wish neither capital nor risk tends to equalize interest rates in different lines. Sec. 305.

This process is never fully accomplished, partly for lack of time, chiefly to lack of knowledge. It takes a long time for the public to find out where profits are really highest and to transfer their income to them in amounts sufficient to reduce the rate of profit to the general level. Sec. 306.

There is a general rate of interest fixed by demand and supply. This is influenced in three ways: by changes in the money supply, by changes in the supply of products, and by changes in the degree of economical security. The effects of the first are trifling as compared to the last. Sec. 307.

The rate of interest is not lowered by an increase in the currency. The resulting insecurity of such an inflation really tends to raise it higher. But if the currency is increased through the banks as loanable funds, the interest will be lowered. This must be immediately retired in order to prevent the subsequent rise which would follow the increased speculation and increased security which such excess of currency engenders. Sec. 308.

The idea that the rate of interest can be lowered by increasing the supply of products is a fallacy. If capital is increased interest will fall. The value of each product has decreased with the interest, due to the great supply of products, so that the ratio of the lower interest to the lower value is just about the same as the old rate of interest. Sec. 810.

The rate of interest is influenced more by the degree of security than value of money products. The best guarantee of security is given by the character of the capitalists. The clearest evidence of this is to be found in conservative government. Sec. 311.

Risk is incident to progress. So far as insecurity results from activity in industrial enterprise rather than from lack of enforcement of laws, it is good. Sec. 312.

The tendency of profits and of interests to fall as security advances has been overestimated. The high rate of profit in new countries is more apparent than real. The new country offers more fields of exceptional profit, but it involves more risk. This idea is due to the glowing reports of the new country and to the prominence of the few cases of exceptional profit. Sec. 313.

The rate of interest tends to fall. But it does not fall so much as it is commonly thought. As society becomes more secure there are fewer cases of high nominal interest on risky contracts and investments which make it seem as if the interest had fallen from a greater height than it really has. Sec. 314.

There still is difference in the real rate, which is due to the following :

1. In new communities there is an insecurity of tenure and a chance for adverse legislation which make future rights less valuable.

2. The high rate of fake interest attracts into illegitimate investments a certain amount of capital which would otherwise be used in legitimate ones. This lowers the supply for the legitimate investments and raises the rate.

3. In new countries people want to control their own capital. This raises the rate by decreasing the supply of loanable funds. Sec. 315.

The rate of profits seeks a level, because as interest goes down while profit remains stationary, the borrowers invest more. This creates a demand for labor. Wages rise. More products result. Prices go down and profits go down. Sec. 316.

There are two causes which make this adjustment incomplete.

1. When all the business men in one industry combine to prevent an increase of investment. 2. When each man acts separately and competes with others, but where some have advantages of method or location over the others. Both may be called monopoly. In the second case the one has a differential advantage over the others. Sec. 317.

Exceptional profits of a true monopoly are generally transient. If they are due to a patent, it expires. Rival processes fear of public opinion and legislation reduce them. Sec. 318.

We see differential gains if the demand for the products of industry is too large to be met by a single organized source of supply. Sec. 319.

When individual gains are personal (that is, due to individual capacity), they are known as net profits. When they are due to advantages of location they are known as economic rent. Economic rent is generally due to foresight in investment. Net profit is due to skill in management. Sec. 320.

Commercial rent is the price paid for the use of the land and its improvements. A large part of this is interest. Commercial rent must not be confounded with economic rent. Sec. 321.

Economic rent and net profit resemble producers' and consumers' gains in being differential gains. They are unlike them in being habitually measured in money and, therefore, more observable; and, second, they are offset by differential losses which often more than neutralize the gains. Economic rent and net profits are really compensations for risk. This justifies the private ownership of property and the present industrial system. Sec. 322.

Profits are the charges which the capitalists make for insuring society against the loss incident to industrial experiments. Sec. 323.

The prevailing theory of economic rent ignores the extent of these losses. It assumes that future prices can be foreseen, and that the marginal laborer and the marginal unit of capital do contribute to an amount equal to the valuation of their services. This is not true. The marginal laborer is employed at wages which exceed the total amount that the consumer ever pays for the product of his labor. The marginal unit of capital receives a return in the form of interest which is often in excess of the advantage which the speculator gets from its use. If the product of the laborer and capital were immediately available for consumption, such mistakes would not be made. The number of these errors is very great. Sec. 324.

Ricardo thought that, if for any reason profits were low, the capital would be immediately withdrawn, for two reasons: In his day there were no great companies which can't get their capital out, once it is in a business. He was a banker and landlord. He was acquainted with investments that could be easily transferred. To-day there is much fixed capital. The returns to labor are distant. A thing once made cannot be unmade without great sacrifice. The positive rent and positive profits are counter-balanced by losses, both on real estate and personal property, which perhaps are greater than the aggregate amount of differential gains made by the more successful inventors. Sec. 325.

Four circumstances may cause such loss. 1. Technical failure. The capital does not yield expected result. 2. Industrial progress. The investment of capital in an industry is replaced by a better one before the accumulated profits have paid the original cost. 3. Over competition. This makes low prices and low profits. 4. Contraction of credit. This lowers prices and makes investment unremunerative, even though it be otherwise perfectly adapted to the needs of society. Sec. 326.

Technical failure is the least important cause. Sec. 327.

The losses from industrial progress are less evident but more widespread. Few make allowances for the danger of the introduction of new processes in determining the depreciation of stock. It represents a great reduction in the profits earned by the owners of fixed capital as a class. Sec. 328.

Land owners are not exempt from these losses. They are likely to lose all their fixed capital as industry progresses. Sec. 329.

Over-production means that more goods are produced than can be consumed at the prices which cover the expense to the producers. Sec. 330.

This will take place in any industry involving large fixed capital. When it occurs in only one line it is called disproportionate production. Over-production is more often due to a collapse of demand in a number of lines simultaneously. Such a contraction is the central figure of a crisis. Sec. 331.

If the banks are compelled to reduce the accommodation of credit, the men who wish to pay money cannot pay as much, and the men who wish to receive money cannot obtain as much. This decreases the volume of business by decreasing the effective circulation of money. Transactions must decrease in number or prices must fall.

Both singly cause a crisis. A fall in price prevents the fulfillment of contracts. A fall in the number of transactions prevents some from getting what they used or consumed and selling their surplus to producers. Here is congestion in trade and apparent over-production Sec. 332.

The order of events of a crisis is this :

1. The shock to public confidence in a period of liberal, not to say, inflated credit, creates a demand for money.

2. This increases the interest. To raise money people sell their goods at a sacrifice. The fall of prices is further increased, because those who would buy can't borrow the money easily.

3. The fall of prices lowers profits. This makes it impossible to pay interest, notes, etc. Readjustments and foreclosures follow. The loss falls on the borrowers if the security is good. If it is delusive, they assent to a reduction of the interest.

4. When the interest contracts have been readjusted the chief effect on wages begins to be felt. During the early stages of the crisis the employer wanted his laborers to make products. After the readjustment the demand for labor diminishes and wages fall. Soon the laborers strike. This is the beginning of the end. Sec. 333.

Strikes do not help those who try to depress the price of securities. The strikes cut down the number of producers, so that the competing producers can dispose of their products easily. Strikes indicate that interest contracts have been adjusted to the prevailing price conditions, and that speculators can make arrangements for the future, with the assurance that the marginal price charged by labor and capital do not exceed the market price which the consumers are likely to pay for the results of such service. Sec. 333.

Until this process is substantially complete the price which consumers pay for products is less than the marginal expense of those products — including, as we must, a return on capital invested. Sec. 334.

The competition of capitalists leads them to advance wages, which are equal to the expected price of the product. Any excess constitutes profits. Sec. 335.

The income for the use of capital is guaranteed, not advanced. This is interest. The remaining profit is either net profit or economic rent. To separate them is to divide the reward for waiting from the reward for risk and foresight. Wages are advanced and guaran-

teed. Interest is not advanced but guaranteed. The justice of the charge made for such guarantees is justified, because society finds itself best served by them. Sec. 335.

CHAPTER X.

Wages are the discounted product of industry. The expected value of the product, less the discount, gives the labor cost per unit of product, or piece wage. This times the number of pieces per day constitute the day's earnings or nominal wage. The amount of commodities represented by the nominal wage is the real wage. Nominal wages and real wages should be estimated by the year rather than by the day. Sec. 336.

The system of wages by time or piece is determined by the nature of the work. Sec. 337.

Differences in the rate of wages among producers are due far more to variations in efficiency than to variations in piece wages. Competition makes this. Sec. 338.

There are two exceptions possible.

1. When different competitors use different methods, interest may take a larger share of the return, thus leaving an unequal return for labor.

2. When the operation of low-cost labor is restricted to land of exceptional advantage or otherwise limited by monopoly, there may not be enough competition of capital to give the low-cost laborer the advantage of his superior economy. Sec. 339.

The wages of services must correspond to what their efficiency would secure if they were engaged in the production of goods for market. Sec. 340.

If wages fall the supply of labor diminishes, and vice versa. Sec. 341.

The demand for labor is measured by the piece; the supply by the day. Sec. 342.

When there is little competition there is a tendency to pay the laborer the minimum wage. Under this system we find —

1. A large body of peasants producing food and receiving the bare necessities of life. Diminution of labor will give this labor a scarcity value.

2. A body of craftsmen who receive enough to keep their station and who can resist a cutting down of wages.

3. The privileged classes, controlling property and politics, who use surplus food unproductively. Sec. 343.

It is the theory of most Socialists that this state of affairs prevails to-day. Many remedies have been offered. Sec. 344.

The rich man benefits the poor in his productiveness by increasing public wealth. The spendthrift uses up the useful things. The miser merely hoards them. Sec 345.

Increased production accrues to the laborers. A destruction of capital diverts capital from one group of laborers to another. It is no blessing to humanity. The wage fund is the demand, the laboring population the supply of labor, under the wage fund theory. The price of labor is thus fixed by demand and supply. Sec. 346.

MacCulloch's definition of capital, as composing all products employed for sustenance or facilitation of production, is inadequate. Not all the things that may be employed for this are thus used. The amount of capital used bears no fixed proportion to the products that might be used. Laborers are better off when there is a small surplus of products effectively used than when a large surplus is ineffectively used. Wages are a flow and not a fund. Sec. 348.

This fact is seen in new countries which have recently suffered from a war or a crisis. The capital in these cases is the same, yet the wages are higher than before. Sec. 349.

Industry is not accurately limited by capital, when limited means that the first habitually comes up to the second and that it cannot exceed it. Sec. 350.

Wages are the residual share of the product of industry. This is true of industry, as a whole, in the long run. Sec. 351.

This explains high wages, where labor is efficient. It makes them depend on a flow of capital rather than on a fund. Part of the gain from low profits goes to the laborer. All of the gain from low wages goes to the consumers. Sec. 352.

Since most improvements are in manufactured articles, the gain is mostly the laborer's. Sec. 353.

An improvement in production does not affect the consumption of the rich, but it does affect that of the poor. Sec. 354.

Four possibilities are now open to the laborer.

1. He may increase his numbers.
2. He may shorten his hours of labor.
3. He may enlarge his consumption of products.

4. He may save the excess of products due to increased efficiency in production. Sec. 355.

The laborer will ordinarily work until the satisfaction nearly equals the pain. Sec. 356.

While Webster's law, that increased consumption yields diminished satisfaction applied in some measure, the rapidity of diminution is different with the four cases of food, comforts, luxuries, and social advancements. With food the diminution is rapid; comforts less; luxuries still less; expenditures for social advancement are accompanied with almost undiminished enjoyment. Sec. 357.

If a man gets the same food in three hours instead of five, he will spend the extra two hours on luxuries and social advancement. Sec. 358.

The greater the wages the smaller the percentage for food, is Engel's law. An increase in food products is accompanied by a decrease in price more than corresponding to the increase in the supply. In manufactured articles of luxury an increase in the supply is accompanied by less than a corresponding fall in price. A moderate reduction in transportation rates increases the net income of the company. This shows that consumers when they can obtain more products for the same amount of labor, increase their consumption so as to devote more labor instead of less to procuring products of this kind. Sec. 359.

An increase in real wages generally decreases the hours of labor. The low-grade labor stops working through sheer laziness. The high-grade labor works a little less so as to get more time for enjoyment and get more pay besides. Sec. 360.

Sometimes the gain to the laborers is accompanied by a loss due to the increase in numbers. Sec. 361.

Well-paid labor pays with increased efficiency. Sec. 362-363.

An influx of labor often raises the labor a step above the lowest. The new labor does the low work. Every increase increases the supply and lowers the demand. Sec. 365.

The general standard of consumption determines whether a country be rich or poor. A high standard of living is gained by high wages. Sec. 366.

High standard of living is accompanied by a higher standard morally. This is good for the country. Sec. 367.

Education and restriction of the liquor traffic are good. Sec. 368.

CHAPTER XI.

Some people, who admit that the laborer gains by an increase of his own powers, doubt whether a similar gain is possible when the means of increased production are in the hands of the capitalist. Sec. 369.

There are three evils charged against machinery.

1. That it displaces a large amount of human labor, thus taking income from the laborers and giving it to the employers.

2. That when it does not drive labor out of use it employs it in unfavorable circumstances.

3. That under the best conditions it makes the man a specialized machine instead of a broad-minded man. It deprives him of his independence. Sec. 370.

The first evil is obviously untrue. Instead of making the same products with fewer men the fact has been that more products are made with the same or more men. Sec. 371.

Atkinson has shown that in cotton, while the actual profits on the increased product had not increased the profits on the total capital, the wages per operative per year had increased 64 per cent. between the years 1840 and 1883. Sec. 372.

The growing contract between wealth and poverty seems to indicate that the rich are growing richer and the poor are growing poorer. This is held to prove that the capitalists have been the gainers in industrial progress. Differences of accumulated wealth prove nothing as to the ratios of income of different classes. The enjoyment of different classes is measured by their expenditure, not by their accumulation. The most careful calculations show that, side by side with the increase of accumulations and the resultant competition on the part of the employers for labor, the proportion of enjoyment which goes to labor is becoming larger, and the proportion which accrues to capital relatively smaller. The *public* income going to labor has steadily increased. Sec. 373.

It is urged that, while the *rate* of profit has doubtless fallen, this fall is not proportionate to the increase in the average duration of the process; and that the ratio of total profits to total wages must therefore have increased. The rate of profit (as distinct from the rate of interest) has fallen most conspicuously in large industries with much fixed capital. Goods are sold on narrow margins. The scale on which the work is done really gives publicity to the facts,

with regard to production and sale, in a way to insure more fully, both to laborers and consumers, the benefit of the one-price system. Mistaken investment in machinery tends also to reduce the gains of the capitalist classes to a far greater degree than any one would assume who did not make the calculation in detail. Sec. 374.

It has been urged that the hours of labor have not been reduced in proportion to the increased efficiency which the new mechanical methods have given. Marx claims that if, in spite of the improvement the laborer continues to work ten or eleven hours for starvation wages, it shows that the result of six or seven hours has been quietly appropriated by the capitalist, since now the laborer can secure as much in four hours as he could before in twelve.

The answer to this has been stated in the previous chapter. Generally the laborer reduces his hours of labor a little, and uses the difference to make himself better off. Some laborers have increased their numbers and have fallen into those lines of industry, where the maximum economy is obtained by employing much labor at a small daily wage. The effect of machinery on the laboring class is not to be judged by its effect on those sections which, either by fault or misfortune, have placed themselves in a position to obtain the minimum benefit, either as producers or consumers. Sec. 375.

In times of commercial distress great distress is found in those lines where there has been great duplication of machinery. This is due to variations in the rate of the introduction itself. In a short period it works its own cure. Sec. 376.

A commercial panic stops investment in new machinery. This throws the laborers who make machinery out of employment. This checks consumption, because this large body of laborers have no money to spend. The lessening of the demand stops the mills, and there is a widespread suffering among the laborers. Sec. 377.

This is the most serious indictment of the socialists against the capitalistic system of production. It depends on the variations in the rate of the introduction of machinery, which may be due to inflation of the currency, unwise tariff legislation, and sometimes by the abuse of commercial credit. Sec. 378.

The second charge against the factory system is that it displaces a higher grade of labor by a lower grade. Sec. 379.

The introduction of machinery has, in point of fact, been attended with a diminution in the proportion of labor done by women and children. In the United States the proportion of men is increasing,

that of women is stationary, and that of children is decreasing. Sec. 380.

The introduction of machinery demands less physical strength but more intelligent care and continuity of attention than children can possibly offer. Sec. 381.

The mortality of children is high in cities, not because women work in factories and fail to look after their children, but to the lack of air and sunlight in the crowded cities. Sec. 382.

The charge that factory life is unhealthful is difficult to discuss. Colonel Wright says that the trouble is not in the air of the factory but in that of the homes. Sec. 383.

The moral results are not so bad as the system it superseded. The intemperance of manufacturing employees is due to town life rather than manufacturing. Drunkenness is less common among factory operatives than among laborers of other kinds. The factory system does not promote prostitution. The number of prostitutes coming from the ranks of factory operatives is conspicuously small. Sec. 384.

The larger the factory the more concentrated the evils and the easier to deal with them. The factory system has not created the evils, but has concentrated them. It has created the opportunity of holding employers responsible for their prevention. Sec. 385.

The manufacturers have done much to protect themselves and their employees in the way of protection from fire and accidents. Female and infant labor has been regulated by law much more effectively. The number of hours has decreased for adult men. Sec. 386.

The laborer is protected by law against accidents. Sec. 387.

It is undeniable that labor is becoming specialized, and that many of the occupations have a narrowing effect on those who practice them. Sec. 388.

The gain in opportunities for travel and varied enjoyment has outweighed the loss in opportunities for changes of occupation. Sec. 389.

This improvement tends to stimulate the movements toward combination of labor, which may seem necessary to insure the laborer against the loss of all industrial and social power. Sec. 390.

The old labor guilds were organizations of capital and labor. The modern trade union is a combination of labor. Sec. 391.

At the beginning of the present century public sentiment and the

law were opposed to labor organizations. To-day it is not so. Sec. 392.

The change in public sentiment has not kept pace with the changes of the law. Many believe that labor organizations exist for the purpose of striking and that industrial peace would be secured if they were suppressed. The first is a distorted idea; the second is wholly unfounded. Legal protection of labor organizations has made them more rational, and therefore more dangerous to those who resist them. Sec. 393.

Nearly all the older trade unions are conservative responsible bodies, prepared to make contracts with capital as well as fight against it. This permanence of organization makes them reluctant to engage a conflict. Those unions are so exclusive and conservative that a new unionism has sprung up which aims to look after labor as a whole. This is not a trade organization but a local one. Sec. 394.

With new unionism, insurance and benefit systems count for little or nothing. They rely less on the power of the individual strikers and more on the collective power to influence public sentiment and legislation which the laborers have as a class. Sec. 395.

The most important object is the attainment of compulsory arbitration in lieu of protracted strikes. This is a wise move. Sec. 396.

They urge that the capitalist should serve the public continuously, that he should not inconvenience the public by stopping to haggle over a few cents wages. The court should determine the fair rate of wages. Sec. 397.

This would be one-sided. The laborer would get all the advantage. It would tend to make the capitalists hesitate to invest their money in new enterprises. The consumer would suffer for lack of sources of supply. The producers would suffer from lack of fields of employment. The capitalist could be forced to arbitrate by boycotting. The advantage would be all the laborers. It can be enforced to their advantage and not to their disadvantage. If to their advantage industry may be checked. Sec. 398.

If we have compulsory arbitration investment is stopped, but we are not liable to interruptions in the public service. If we do not adopt it we suffer from the interruptions of public service. Sec. 399.

Government ownership does not meet the exigencies of the case. If it yields to the labor demands in every instance the want of discipline will be destructive. If it resists the demands of labor it will

have no more effective means of maintaining its ground than the capitalists. Sect. 400.

As time goes on the leaders on both sides become sufficiently wise to reduce disputes to a minimum. Sect. 401.

A board of conciliation at an early stage of a strike can accomplish much. Often strikes are due to misunderstandings. Sect. 402.

The division of earnings according to the selling price of the product, is known as the sliding system. This is agreed to before hand and prevents much trouble. Sect. 403.

From the workers' standpoint this may prove serious as the selling price may be such as to make their income less than their needs. According to the living wage view, labor should be paid enough to maintain a good grade of efficiency. Sect. 404.

The evils of treating labor as a commodity and not as a commodity are both great. Sect. 405.

The living wage may be good. But it is a hard thing to work. Some would insist on a living wage which the employer might think unfair. It would make a man work for something or nothing, there would be no intermediate steps. The consumer might be unwilling to pay the *something* and there you are. It is absolutely necessary that the living wage be just. Sect. 406.

The competition of labor and the competition of capital are to-day very effective in gaining good results to the laborer. Sect. 407.

Under the living wage system the laborer must resort to bargaining in which the capitalists, superior strength and intelligence must tell against him. Sect. 408.

Monopolies of capital and labor are bound to fail. Sect. 409.

Many trade unions discourage industrial efficiency. This is a grave tendency. It handicaps themselves as well as society. Sect. 410.

CHAPTER XII.

Labor and capital are most compatible when there are no sharp distinctions between them. This is the state of affairs in young countries. Sect. 411.

At present there is a sharp distinction. To become a capitalist requires large saving, this involves serious dangers.

1. It increases strikes which involve the economic distinction of capital.

2. It neutralizes much of the inventive, giving advantage of private property.

3. It involves a contradiction between our political theories and the fact of the industrial world. The warring of labor against capital menaces our political and industrial order. Sect. 412.

The paternal policy on the part of the employers does not meet the second and third dangers. It leads to violation of the doctrine of social equality unless very carefully carried out. Sect. 413.

The policy of letting the workmen take shares leads to abuse in large factories. It does not make the laborer independent, but merely helps him to elect his own governors. This amounts to little. Sect. 414.

Profit sharing is not always successful although it is fairly good. Sect. 415.

Usually the workmen are unwilling to heartily enter such a scheme. Sect. 416.

The bonus of profit to the labor must increase his efficiency or he must be prepared to accept low or high wages as the business turns out. Sect. 417.

Workmen cannot be forced or urged to work harder by the prospect of these distant returns. The increased efficiency of one helps all. This the laborer soon sees. If there is little or no profit the suspicions of the laborer are aroused. Sect. 418.

If laborers are not working near their maximum rate, profit sharing may be good. Sect. 419.

Under other circumstances it should be condemned as it involves the laborer in the risks of the employer. Sect. 420.

It is often possible to enable the workman to gain a bonus by superior efficiency and care. Sect. 421.

Co-operation is either consumptive or productive in its management. In the latter case it is controlled by the investors, in the former by the consumers. Sect. 422.

The more completely the workman is in the habit of using his powers, the least promising the field for co-operation. It needs a field of industry that demands little management, Sect. 424.

Lasalle wanted the government to lend capital to the co-operators. This would increase the likelihood of poor investments. The failure of co-operation is generally due to the lack of business ability of its managers. Sect. 425.

Consumers co-operation is much better than the productive one.

The essential difference is that one knows the demand the other does not. For this reason the productive co-operation needs a very good manager. There are three forms of consumers co-operation, co-operative purchase, insurance and banking. Sect. 426.

The first form, co-operative purchase is very successful. Sect. 427.

This is mainly due to the cash system on which the stores are run. Sect. 428.

The business is regular and needs little advertising. Sect. 429.

Co-operative insurance prevents over insurance which is burdensome on the poor and leads to fraud in order to get the insurance. It is cheaper because there are no high salaried agents. Sect. 430.

Mutual insurance prevents fraud and lowers the rate. Sect. 431.

Co-operative mutual life insurance has been considerably successful. Sec. 432.

The idea of the co-operative banking is that labor may enable itself to obtain credit by collecting a small capital in the hands of the association, shall attract outside investors by the offer of a fair rate of interest, and shall then loan funds to its members after direct personal examination of the circumstances of the borrowers. The educational effect of this is splendid. Sec. 433.

In England and this country co-operative banking has been confined to building. The loans are made to the offerer of highest interest. Every month the borrower pays his interest and the amount due on each share. The interest on paid-up money accrues to his advantage. Sec. 434.

This kind of saving is compulsory. Often the interest is too high. It is cheaper and better to go to a savings bank. But it tends to increase the number of men who own their homes. This is educational. Sec. 435.

Government management of industrial enterprise is not good. Sec. 436.

Taxation was inaugurated to support the government. Sec. 437.

Every tension of government activity to new fields restricts private enterprise in two ways. It limits the field of investment. It may appropriate through taxation a part of the returns from private enterprise in all other fields. Sec. 438.

The more the government undertakes the greater the taxation. Sec. 439.

Bridges, lighthouses and public forests are best controlled by the government. Sec. 440.

If taxpayers do not realize that taxes are for their own good, the good to be obtained is hindered. Many fancy that if they spend money they are doing good in that they are employing labor. This is obviously not true unless it is devoted to the increase of public wealth. Sec. 441.

Many monopolies are such that it is doubtful whether the government had best take them. Sec. 442.

Jevons gave these criteria for government ownership.

1. Where numberless operations can be converted into a great government system.

2. Where the operations are routine-like.

3. Where they are under the public eye or the gaze of individuals, ready to detect and expose failures.

4. When there is little capital expenditure these principles are restrictive, not positive. Sec. 443.

State ownership of railroads is not very good. Sec. 444.

Private ownership fosters development and gives better service. Sec. 445.

No general propositions can be maintained with regard to the rates under the respective managements. Sec. 446.

The whole value of state ownership depends on the kind of government. Sec. 447.

The chance of securing the benefits and avoiding the evils is greater in a community than in a state. Sec. 448.

Non-partisan civil service is absolutely necessary for state business. Sec. 449.

CHAPTER XIII.

Many plans have been offered to make the number of adult laborers less. Sec. 450.

One claim is that the reduction of the number of hours would create a demand for labor. This would increase the price of labor per hour. Sec. 451.

The wages will not rise to the ten-hour price for eight hours. This would cause much hardship if it were widespread. Sec. 452.

There is something in the argument that increased efficiency, due to shorter hours, would make up the difference. In certain industries recourse would have to be had to legislation, in order to secure shorter hours. Sec. 453.

The eight-hour law falls heavily on those who cannot increase their speed of labor. Sec. 454.

The restriction of child labor is farsighted. Sec. 455.

A certain amount of regulation of the labor of women seems necessary; but the growing equality of the two sexes is likely to reduce such special legislation to a minimum. Sec. 456.

The need of legislation in the sweating system is obvious. Sec. 457.

The sweating system is a remnant of the old domestic system. The evils of it are due to the lack of open competition. Sec. 458.

Convict labor is under the lease, the contract, and the piece-price systems. Under the first the convicts are leased out to the producers. This is bad for the convicts. Under the contract system the labor within the prison is put at the disposal of a contractor. Under the third the results of the labor are offered to the contractor at a fixed price per unit of product. This is the best for the convict. But it fails, because the wardens usually lack the qualities necessary for a good manufacturer and a good warden. Sec. 459.

Convict labor depresses wages, because it increases the supply of labor. Sec. 460.

The abolition of convict labor burdens the community by raising taxes higher. This would lower general wages by diminishing the amount of funds available for production. It would also have a bad effect on the convicts themselves. Hand labor would not help the convict when he got out. A public prison as a producer would be liable to be run at a loss to the state. It would tend to be run at less profit than would be possible. There would be little incentive to good management. The best means of convict labor is to divide it among different industries. Sec. 461.

It is good to restrict the immigration of foreign labor. Sec. 462.

The worst form of immigration is the "assisted." Paupers are bad. The law against pauper and convict labor amply justifies the facts. Sec. 463.

Immigration is more objectionable in a country which admits the immigrants to political power. As long as the country can assimilate it all is well. Sec. 464.

Unrestricted immigration is good. Those who come are generally of a high class.

More attention is paid to the protection of home industry than to immigration, because the capitalists favors it. Sect. 466.

Many countries have had many experiences with free trade and protection. Sect. 467.

There are three kinds of arguments for protection. The first claims that protection makes high wages by keeping money at home and by creating an increased demand for labor. The second urges the indirect advantages of the diversification of industry. The third looks on protection as a military necessity. Sect. 468.

The first argument is a survival of the mercantile theory. Money spent at home is not economy when you can spend it abroad to so much greater advantage. The same result would be obtained more cheaply by paying a bounty to those industries which need it. This of course would come out of the taxation. The people don't want that because it would cost too much. Sect. 469.

Limitation of imports limits exports. Sec. 470.

These efforts to accumulate money swell the currency. Wages are higher nominally but not really. The best thing is to sell all you can and buy more. Sec. 471.

The country should pay more attention to extending her resources than to paying off old debts. It would be better to tax the country directly. Sec. 472.

International trade will of necessity make exports equal to imports. Sec. 473.

The application of capital to industry which can't stand alone is poor economy. Sec. 474.

By protection we really lose money. Sec. 475.

The cost per unit of product is what counts. The cost per unit here is less than in most countries. Sec. 476.

The nation should devote itself to producing those things in which she is most efficient. Sec. 477.

The second argument is more plausible. The advantage of such policy warrants the sacrifice, is maintained by the upholders. There are some industries which are exhausting the resources of the country. By a protective tariff on certain industries the capital would go to them; then the resources of the country would not be diminished so fast. It is conceivable that this might actually increase the amount distributed to labor. Sec. 479.

Protection may foster new industries which would benefit the country by giving a chance for the employment of high grade labor, which otherwise would not be developed at all. This is their argument. Sec. 479.

If we could assume that, legislation would be wise and uncorruptable, we might devise a tariff which would be of greater benefit than any system of national taxation now in use. But the legislature does not look at the problem wisely. Sec. 480.

The apparent prosperity which follows the just operation of a protective tariff increases the probability of mistakes. After a while the mills which have been busy making duplicate plants shut down, and the laborers are thrown out. The whole industrial world suffers from this duplication of fixed capital and restricted facilities of exchange. Sec. 481.

Legislation is more apt to stimulate an exhaustion of soil than a protection of it. Protection exhausts all the resources of the protected goods. Sec. 482.

The duty on copper shows its effects in the price of shares in the well regulated copper mines. The advantages of protection accrue most often to the capitalist, those of free trade to the consumer, the laborer. Sec. 483.

Protection of infant industries in some cases is good. It does not, however, justify the expense involved. The period of infancy is generally longer than was expected. The nominal reductions of the tariff are often ineffectual because the cost of production has decreased faster than the decrease in the tariff. All talk about protections cheapening prices is bosh. They would have gone down anyhow. Sec. 484.

The foreigner sells his goods as low as he can since he competes with the world. Sec. 485.

The good of protection is much less than the good of cheap consumption. Sec. 486.

The variableness of the tariff is bad. If the legislature was wise and unbiased these theoretical arguments would deserve more weight. As it is, the safer economic policy is to adjust the tariff for purposes of revenue. Sec. 487.

The military argument is of course not an economic one. A small part of the proceeds of a revenue tariff would do more to put a country on an even footing than is accomplished by a protective tariff. Sec. 488.

Protection destroyed our merchant marine by making materials high priced. Sec. 489.

Subsidized boats prove useful in times of war. It is poor economy. It makes an over supply of vessels. This lowers the

rate of freight. The advantages are hard to show, for the sums spent in this way. Sec. 490.

Many believe in protective tariff because it hurts other nations. Sec. 491.

The commercial hostility which is engendered by the protective tariff involves evil both commercially and politically to all parties involved. Sec. 492.

Colonization as a means of national protection and a means of finding profitable labor has two advantages. (1) It relieves the pressure of labor. (2) It adds to the resources of the country by increasing their diversity. When colonies are weak they have to be fostered. As soon as they become strong they wish to be independent. Their only "*raison d'être*" is a political one.

CHAPTER XIV.

The ordinary sources of revenue are prices, fees and assessments, and taxes. Prices are charges for special services which people are not compelled to accept. A fee is a charge for services which people are compelled to accept. A tax is a forced contribution to the general expenses of the government. It is not based on special services. Sec. 494.

When the government charges for any of its services more than individuals, the payment exacted is known as monopoly price, and is treated as a tax on the consumer. When the payment exacted is equal to the price of private individuals it is a quasi private price. When the price is less than the individual's price, it is a public price. Sec. 495.

An assessment is levied once for all; a fee is repeatedly levied. Assessments are levied on property and there is usually an attempt to make the service rendered correspond to the assessment more than can possibly be the case with fees. Sec. 496.

The income which is not included in prices, fees and assessments, must be lumped as taxation. Sec. 497.

Taxes have now come to be regarded as a self levied contribution to the general fund for the support of general services. Sec. 498.

Adam Smith laid down four criteria of a good tax system, equity, certainty, convenience of time of payment and avoidance of unnecessary cost of collection. Equity as an ideal is right, but as a guiding principle it will defeat the realization of the ideal. Sec. 499.

Certainty is the fundamentally important object, without which, attempts at equality prove illusory. Sec. 500.

Uncertainty may result from failure to discover the objects which should be taxed or from doubt as to their value, or from the possibility of collusion between the assessor and the person taxed by which consent is given to a low rate. Sec. 501.

Taxes should be levied on visible tangible objects. Sec. 502.

The most important of these is real estate. Mortgages should be taxed at their full value. The chief obstacle is the apparent loss to communities of lenders in allowing property which their citizens own to be taxed in the place where it is invested. But the amount collected in this way is small compared with the vexation involved. Another objection is that real estate will be overburdened, while personal property will be relieved. The result will be that by relieving the lender from taxation, the rate of interest will be lowered. The owner of personal property will thus indirectly pay a larger share of the taxes than he does now. If such loans can be reached by this indirect method one of the largest items of personal property will be taxed. Sec. 503.

In the assessment of corporate property no deduction should be allowed for indebtedness. Sec. 504.

The attempt to levy taxes on the thing where the value originates, rather than on the person who receives the benefit is known as the policy of stoppage at source. This ensures the government against dishonesty and is much easier. Sec. 505.

The second source of uncertainty arises from doubt as to the actual value of the property or transactions assessed. It is difficult to determine the net earnings of a business. Some states substitute a low tax on the gross earnings for a higher tax on the net earnings. The latter would be more equitable for often a tax on gross earnings would bear hard when the business is large and the rates and profits low. But the superior certainty outweighs the theoretical disadvantages. In levying customs specific duties are more certain though less equitable than ad valorem duties. Sec. 506.

A third source of uncertainty arises from the danger of collusion of assessors and tax payers. This comes chiefly where minor civil divisions are asked to contribute to the general government on the basis of this assessed valuation. This leads to under valuation. For certainty of valuation the objects of national and local taxation should be kept separate. Sec. 507.

Double taxation should be avoided in the interest of certainty no less than economy and equity. Sec. 508

A tax which meets the demands of certainty tends to become more equitable. The equality quality of the burden will reduce itself by the reinvestment of capital. Sec. 509.

If taxes were continuous this shifting process would make them equitable; but they are not so that there must be constant adjustments to burdens. Sec. 510.

A direct tax is one levied on the person who is expected to pay it. An indirect tax is one whose burden is presumably shifted upon some one else. The custom duty is an indirect tax because the consumer pays it finally, although the importer really pays it at the time of collection. Sec. 511.

The transfer of taxes from one man to another is, sometimes, perfectly simple and direct. Some taxes are transferred by commercial competition. A duty is laid on certain goods the price goes up because the dealers find it impossible to furnish the goods at the old price. Competition raises the price and the tax is transferred to the consumers. Some taxes are transferred by industrial competition instead of commercial by the withdrawal of capital invested in certain lines when the tax has borne heavily, and a slow indirect readjustment of the relations of supply and demand. Sec. 512.

A tax is direct when its immediate burden is shifted only by the first of these processes. It is indirect when the burden is shifted by the second of these processes. Sec. 513.

Indirect taxes are not generally available for local purposes. Sec. 514.

The question of taxation on wealth or income is one on which there is no unanimity. Capital and income are really the same in their results. A tax is paid out of the capital when the accumulation is diminished by just that amount. It is paid out of income when the expenditures are cut down to meet the tax. Sec. 515.

The question between income and property taxes must be decided on the basis of certainty of assessment and ease of collection. The measurements of capital presents more theoretical difficulties than the measurement of incomes; but practically it rests with the preferences and habits of the people. Sec. 516.

The question of taxation on the basis of equality and progression is more important. A property tax can be made progressive without much disaster. An income tax involves the exemption of a minimum income necessary to the support of a family. Sec. 517.

A progressive tax increases the difficulty of collection. This uncertainty makes the progressive tax inapplicable. Sec. 518.

The single tax on landed property and monopolized advantages have been suggested as a means of combining certainty with equality. Sec. 519.

The losses incident to the collection of government revenue are as follows: (1) The consumers have to go without a certain amount of goods. (2) A rise in price reduces the consumers surplus from the series of transactions. (3) The labor which produced the goods is thrown out of employment. (4) A fall in wages reduces the producer's surplus. (5) The field of investment is reduced by the amount of reduction of wages. Sec. 519.

The supporters of the single tax draw a sharp distinction between profits and rent. They propose to make land common property and let the gain accrue to the public; or to leave the title in private hands, but tax economic rent to its full amount in place of all other taxes. Sec. 521.

Rent and profits are closely connected. Rent has come to be a return which depends upon the skill of the investor. The single tax would not guarantee him against losses. It therefore would destroy the motives to invest a capital in projects of land improvement. Sec. 522.

The ethical and political difficulties are more pronounced than the economic ones. The land if taken away would have to be paid for by the government. Rent would diminish if the land belonged to the government, because no one would improve their land. As a fiscal measure it is radically defective. Sec. 524.

The assessment of improved land for more than the unimproved is bad because it does not foster progress. Sec. 525.

Poll taxes are neither productive nor equitable. Inheritance taxes are just but easily evaded. Taxes on occupations are managed in this country as a means of restricting the number of those engaged in certain kinds of business. Sec. 525.

Indirect taxes may be divided into three groups: excise charges, exports duties and import duties. Sec. 526.

For purposes of revenue, indirect taxes have several disadvantages as compared with direct taxes. It is hard to predict the amount of income. High taxes foster evasion of taxes. High custom duties foster home industry, which tends to replace the imports. Sec. 527.

The revenue from fines and forfeitures has ceased to be important. Sec. 528.

Unpaid bills of the government are the floating debt. Formal obligations to pay the interest and principal on debts make the debt a funded debt. When these obligations set a date of maturity they are bonds. When the principal is paid by the issue of a new loan, the operation is known as refunding. Sec. 530.

A nation cannot permanently rely on loans to pay its debtors. Sec. 531.

There are two cases where recourse to loans is necessary. (1) In an extraordinary emergency like war. (2) In the case of permanent productive investments. In war wealth is destroyed, but property rights and relations are conserved. Sec. 532.

The great advantage of loans over capital is that they enable the government to secure unequal contributions from different citizens. They are placed with good feeling, taxes are more burdensome. Sec. 533.

Things which do not promise a return excepting war and the like, should be undertaken with the revenue from taxation. Sec. 534.

Equally bad with unnecessary loans are those for speculative enterprises. Sec. 535.

In the case of loans for industrial improvements which promise a sure return it is different. It is best to keep the loan within such limits that the investment will pay interest and make a slight return to capital. Sec. 536.

It is best to pay war debts as soon as possible. Sec. 537.

Unless fiscal checks are rigidly applied and fiscal deficits made up by present taxation rather than by promises for the future, the danger of waste far outweighs the probability of good. Sec. 538.

QUESTIONS FOR REVIEW.

For what reason does Hadley compare public wealth with private property?

What did Mill think prevented the abolition of misery among the lower classes?

What does Hadley think?

Is it sufficiently safe to help the poor; (1) by outdoor relief; (2) by indoor relief; (3) public works; (4) compulsory insurance; (5) labor bureaus?

What are the differences between the commercial and socialistic theory of value?

Name some cases in which state regulation of competition is good?

How does Hadley treat the equation of demand and supply? How does Mill?

What determines the value of by-products? Why is gambling bad?

Why is insurance good?

What are the services which speculation render to the community?

How great a part of modern profits is compensation for risk? Is this justifiable?

How do the following encourage the investment of capital?

Private ownership of land?

Patents, copyrights and tariff to protect young industries?

Limited liability of corporations?

Interest?

Why is competition keen with large investments of capital? What devices aim to check this? Apart from legislation what prevents monopolies from raising prices?

What are some of the legal methods of regulating monopolies? Which does Hadley think the most promising?

What are the evils which tabular standard and bimetallism aim to remedy?

Is this slow depreciation of gold unjust to debtors? Is it a handicap to production. Is the concurrent use of gold and silver as legal tender practicable?

What is Gresham's law?

How does domestic exchange compare with foreign exchange?
How are they similar? How are they unlike?

Why should the increase of bank notes be guarded against?

How is the U. S. government at present doing a banking business?

How does Hadley view distribution?

How does Hadley think interest and rent are determined? Does the amount of accumulation correspond closely to the rate of interest? Is rent an unearned increment; according to Hadley? According to Mill?

According to the popular theory what is the demand for labor? What is it according to the wage fund theory? What, according to the residual theory?

What are the three arguments against machinery? Are they valid and why?

What are the distinctive characteristics of the modern trade unionism and its methods.

Why have profit sharing schemes succeeded better in Europe than in the United States?

Why has consumers' corporation been more successful than producers'?

Under what conditions is the government management of industry successful?

Is the popular argument for an eight hour labor day sound?

Should convict and pauper be allowed to compete with free labor?

Explain the popular arguments for the protective tariff? What is the infant industries argument? The military argument?

What are the three kinds of taxes?

What is the fundamentally important object?

What is the policy of stoppage at source, equality and progression of taxes?

What is the single tax? Is it good? In what cases are public loans desirable?

stop



OCT 18 1945

